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BY HAND DELIVERY

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
Commonwealth of Massachusetts
One South Station, 2nd Floor
Boston, MA 02110

Re: D.T.E. 03-50 -- Annual Audit

Dear Secretary Cottrell:

In the Department's Final Report Letter Order – Second Performance Assurance Plan (PAP) Audit issued on September 14, 2005, the Department found that "Verizon is in full compliance with the PAP. Accordingly, no substantive changes in Verizon's PAP compliance procedures are necessary or appropriate." *Id.*, at 2. Given the outstanding results of the 2004 audit and the Department's previous findings regarding the first PAP audit that "...if the results of the next successive audit [the 2004 Audit] are as strong as those of the previous audit, a second successful audit would be strong evidence to support amending the frequency and scope of future audits, and the Department would consider such an amendment at that time,"¹ Verizon Massachusetts ("Verizon MA") requests that the Department amend the frequency and scope of future audits. Specifically, Verizon MA requests that the Department revise its annual audit requirement and instead provide for a tri-annual audit that would be conducted at the discretion of the Department.

Background

In its Order Adopting Performance Assurance Plan issued on September 5, 2000, the Department provided for an annual audit of Verizon MA data generation and performance reporting under the PAP. In August 2002, the Department selected PricewaterhouseCoopers ("PwC") to conduct the initial audit for calendar years 2001 and 2002 (*see* Letter Order dated August 26, 2002). PwC issued its final report on January 31, 2003, in which it detailed a highly successful audit showing Verizon's strong adherence to the performance guidelines and PAP requirements.² In its March 13, 2003 Letter Order concerning the PwC audit, the Department

¹ See Letter Order dated October 22, 2003.

² PwC determined that there were just three instances of material noncompliance affecting only three of the 252 metrics reported for the evaluation period of May 2002. This represents an error rate of approximately one percent.

found that “notwithstanding three instances of material noncompliance, the audit demonstrates that overall, Verizon is complying with the data generation, calculation and reporting requirements, including the bill credit requirements of the Massachusetts PAP. The three incidents of material noncompliance did not impact bill credits and did not demonstrate a level of material noncompliance to constitute ‘backsliding’ on its section 271 obligations. Accordingly, the Department determines that no substantive changes in Verizon’s PAP processes and procedures are necessary” (Letter Order dated March 13, 2003, pages 2-3).

On March 28, 2003, in response to a Department directive for Verizon MA to initiate the bidding process for the next audit in the first quarter of 2003, Verizon requested that the bidding process be delayed in order to allow the Department time to determine the timing and the scope of the next audit. Subsequently, on July 8, 2003, Verizon MA recommended that the Department amend its requirement for an annual audit of the PAP to a review that would be conducted on a tri-annual basis. Verizon MA supported this recommendation by citing the favorable results of the PwC audit and highlighted the fact that the PwC audit findings “reflect Verizon’s proven track record of strong wholesale performance audits at both the state and federal level.”³ Verizon’s metrics process and Carrier-to-Carrier (“C2C”) metrics guidelines are ubiquitous throughout the former Bell Atlantic footprint and, with the exception of New Jersey; Verizon’s PAP plans are substantially similar. Therefore, Verizon’s success in numerous audits provides the Department with additional assurance that Verizon’s metrics processes and procedures include the necessary controls to ensure the continuation of accurate and timely reporting of parity service performance in the wholesale marketplace.

In addition, the Commonwealth of Virginia State Service Commission (“VA SSC”) has the ability to actively replicate Verizon wholesale performance data. The VA SSC has been charged with replicating performance data since the first quarter of 2002. The Commission has not identified any significant data quality issues with Verizon’s wholesale performance data. In fact, on September 22, 2005, the VA SSC issued an Order changing the annual audit requirement by reducing its frequency and making the initiation of an audit at the Commission’s discretion.

Although, as stated previously, the Department denied Verizon MA’s proposal to amend the PAP audit requirement, it did conclude that “if the results of the next successive audit are as strong as those of the previous audit, a second successful audit would be strong evidence to support amending the frequency and scope of future audits, and the Department would consider such an amendment at that time.” *Letter Order* dated October 22, at 3.

³ See Verizon MA’s July 8, 2003 letter from Bruce P. Beausejour to Secretary Cottrell, page 2, for a summary of Verizon’s numerous wholesale metrics evaluations from 1999 through 2003. Since Verizon MA filed the July 8, 2003 letter, there have been numerous additional audits, which have all been successful: 2003 and 2004 Ernest & Young (“E&Y”) audits associated with the Bell Atlantic/GTE Merger Conditions; Liberty Consulting Group audited the Verizon plan of New Jersey in 2002-2003, the Verizon plans of Maryland, Virginia, and the District of Columbia in 2004, and the Verizon plan of West Virginia in 2004.

Second PAP Audit

In the October 22, 2003 Letter Order, the Department determined that the next PAP audit would satisfy the audit requirements for 2003 and 2004, and would cover the most recent twelve months of wholesale performance. The Department selected E&Y to conduct this audit, and on June 29, 2005, E&Y issued its Final Report. Once again, Verizon MA had outstanding results. Notably, the second audit results were superior to the first audit. Based upon its extensive review, E&Y concluded that "in our opinion, management's assertion that the Company complied [with] the requirements set forth in the Performance Assurance Plan Verizon Massachusetts during the period from September 1, 2004 through September 30, 2004 is fairly stated, in all material respects." In other words, there were no findings of material noncompliance. As noted above, the Department's September 14, 2005 Final Report Letter Order concluded that Verizon MA has successfully passed the audit and was in full compliance with the PAP.

Conclusion

Based on the favorable PwC and E&Y audits in Massachusetts and the strong reporting performance in other states, Verizon MA requests that the Department revise its annual audit requirements and instead provide for a tri-annual audit to be conducted at the Department's discretion. Therefore, the next audit could be performed in 2007 and cover no more than the most recent 12 months. Such a schedule is reasonable in light of Verizon's performance and the fact that audits are expensive and require dedication of significant time and resources for Verizon MA and the Department. An audit on a tri-annual basis will conserve those resources, while providing assurance of compliance with the PAP. Additionally, since the audit process timeline is rather lengthy, an annual schedule does not necessarily permit a review of the effectiveness of all of Verizon's remediation activities by the very next audit period, which could make the subsequent audit less informative than contemplated.

Sincerely,


Bruce P. Beausejour

cc: Service List (electronic distribution)